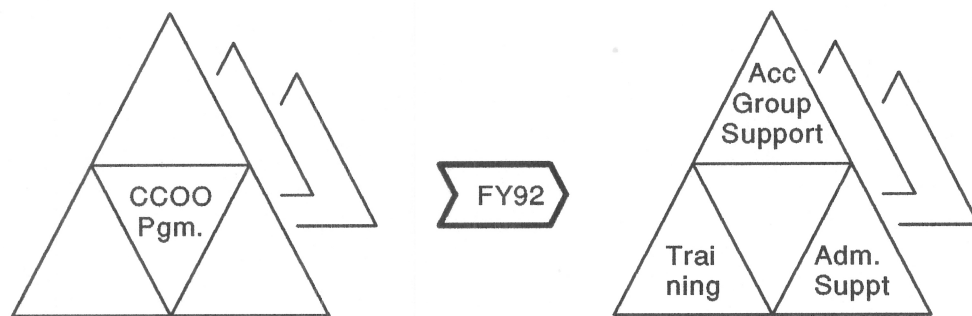


Business Plan for the CCOO program



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Preface

This document has been written by six people (see "Distribution" below) for two reasons:

1. as an assigned project, to provide input to the subsidiary management team for its FY92 CCOO Program .
2. as a learning experience, to gain experience in writing a strategy document

During FY91, the authors have participated in the "Intensive Career Development Program for Professionals" (ICDP-P). The project resulting in this document was "funded" by the ICDP-P Program, under sponsorship of Peter Bos, Country Sales and Marketing Manager.

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Executive Summary

Comprehensive Cost of Ownership (CCOO) of IT solutions has been selected as a strategic business focus for the Dutch subsidiary for fiscal year 1992.

This document describes an organizational structure that will allow the selling force to address Cost of Ownership issues in the selling cycle, as well as training, procedures and tools that increase the awareness of these issues within the selling force.

The organization structure follows the entrepreneurial model by making the account groups a primary focus for CCOO activities. Supporting functions for CCOO may be placed in the corresponding subsidiary support groups.

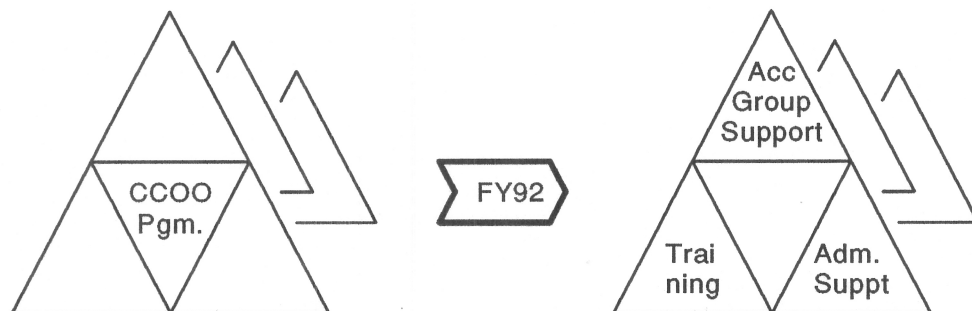
It is recommended that resources are allocated for FY92 to manage a CCOO Program, to develop a training curriculum and to put in place administrative support. The total effort is expected to be 24 man-months.

Although it is expected that the growing awareness of Cost of Ownership may in the future lead to supplying paid Cost of Ownership consultancy to our customers, the program as described will not generate any revenue in the first year.

"We're only in IT for the money."
Frank Zappa

Chapter 1

Mission and Justification



1.1 Mission statement

The mission of the CCOO Program for FY92 is

to create an environment for account teams that enables them to leverage revenues by using comprehensive cost of ownership as an effective financial selling tool against our competitors.

The country management team recognized the importance of the CCOO program by specifying it as one of the top priority items in the subsidiary Business Plan for FY92.

1.2 Framework for CCOO: financial selling

Financial Selling is the technique where the selling force uses financial justifications and addresses financial management in the customer organization during the selling cycle and the account management process.

For the customer, Financial Selling reflects the fact that **IT solutions** represent an investment that can be evaluated in terms of costs, benefits, added value, payback period, return on investment etc.. All these are aspects of Comprehensive Cost of Ownership (CCOO for short).

For Digital, Financial Selling augments our traditional method of selling, where we use technical justifications to customer IS management. Furthermore, this approach is completely in line with the notion of Solution Business, whereas the traditional method of selling is more in line with our image as the provider of hardware only.

An important advantage of using the Financial Selling approach is that it allows Digital to propagate its messages to an audience that we have hardly ever addressed before: corporate decision makers, financial controllers, and the like. The approach is more proactive, and may generate business by itself.

Another advantage is the favourable position that Digital occupies in most financial evaluation studies. This particular advantage can also be used when supporting IT management in their evaluation of the operational costs of multivendor data centres.

Taking this approach leads to more insight in the criteria that our customers apply to purchasing IT solutions. The experience that Digital gains may be of value to other customers: it opens the possibility of Cost of Ownership analysis *services* and also to alternate ways of financing the purchase (e.g.: lease).

Finally, our competitors are using financial selling in various degrees as a successful selling tool.

Cost of ownership studies can be seen as the first step in the financial selling cycle, but also as a separate activity that can generate service revenue in and by itself.

1.3 External Analysis

1.3.1 Customer Perspective

The primary concerns for customers are: defining needs and evaluating application solutions. The solutions, when viewed in financial terms, have a *cost* part and a *benefit* part. The cost part is relatively easy to describe: the sum of hardware cost, software cost and manpower added together in a n-year cost of ownership model. Our customers expect our proposals to contain this cost analysis as a matter of course.

Much more difficult to obtain is a breakdown of the benefits in financial terms. In most evaluations this is simply omitted, and decisions are based on intuitive or qualitative, rather than quantitative benefits. Increasingly, customers are asking for our support in quantifying the benefits of IT solutions. It takes considerable (communication) skills to help customers identify the driving factors for these benefits and quantify them.

Having obtained both costs and benefits in financial terms, a third step is to select and apply a model to determine the appropriate financial appraisal method such as payback period or return on investment. Ideally, this leads to an identification of the *value* of the IT solution for the customers organization.

1.3.2 Consultant Perspective

During the past five years, cost of ownership has become an increasingly important factor in consultant evaluation of IT solutions. System purchasing criteria as suggested by major consultant firms often include cost of ownership components.

The importance of these components has increased due to several obvious changes in the IT market:

- containment of costs
- shrinking IT budget vs. increased demand for IS solutions
- the centralization/decentralization issue
- the advent of open systems
- the proliferation of multivendor computing environments
- price/performance issues

Consultant firms play an important role in advising their and our customers on these subjects.

Three major firms have defined explicit models that describe systems purchasing criteria: Gartner, Sierra, and Index.

The *Gartner Group* published their model in June, 1990. The Gartner model includes criteria in three areas: Application Environment, Technology, and Functionality. It has no explicit references to investment quality, although the Application Environment analysis included a calculation of cost per user for several solution environments.

The *Sierra Group* survey of 1990 focused on office information systems. The purchasing criteria for the Sierra Group model include costs of documentation, installation, staffing and growth. Worldwide results for this 'simple cost of ownership' model have been made available by Sierra.

The *Index Group* developed and tested a 'Comprehensive Cost of Ownership' model for networked systems in 1989. The report on this study by Dr. Michael E. Treacy has seen wide distribution within Digital. The model includes costs over a five year period for the acquisition, operation and incremental change of five resource categories: equipment, software, personnel, communications, and facilities. The Index CCOO model is widely regarded as a sophisticated model for the evaluation of systems- and network-related investments. It has been adopted by Digital as the base for general and competitive cost of ownership analyses.

In these three studies, Digital compared favourably against the other participants.

The Index Group is currently initiating a new cost of ownership evaluation study. Digital is actively participating in this study, and is selecting customers to participate as well.

In Holland, consulting firms also view Cost of Ownership as being a part of a larger issue. KPMG, for instance, addresses the position of Information Technology in a company's business using a method called "IT Assessment". From this assessment, both cost and value of IT solutions may be derived.

1.3.3 The Competition

Two types of competition may be defined: the first group consists of our traditional competitors in the systems and solutions business. For IBM, consultative selling, including financial selling and cost of ownership analysis has always been an important part of their account control strategy. IBM continues to use Cost of Ownership aggressively in their selling process, addressing financial and business management levels.

Hewlett-Packard service advertisements stress low maintenance costs. Their efforts with respect to Cost of Ownership in the selling process have not been perceived by us in competitive situations.

The second group competes with us in the field of CCOO-related services (i.e., for a fee). In this group, the competition is fourfold:

1. IT Manufacturers, as described above
2. Accountants and EDP Auditors
3. Management Consultants
4. University professors, also university graduates performing analyses while doing research projects.

1.4 Internal Analysis

1.4.1 Dutch Subsidiary

In recent years, several efforts have been made to use cost of ownership analyses in selling situations. These efforts mostly related to individual projects and were conducted on a personal basis. As a result, knowledge of Cost of Ownership models and techniques is scattered throughout the subsidiary. It follows that the use of Cost of Ownership is strictly dependant on these individual persons, and not on any structure or function within the Dutch organization.

As a tool for individual use of Cost of Ownership, a spreadsheet model has been made available by the Systems Marketing department. One of the Systems Marketing staff has acted, on a part time basis, as a coordinator for some Cost of Ownership-related activities.

As part of the Sales training program, individual members of the selling force have been attending the Business Analysis Training (BAT) string and/or EBMS training. These training programs include many aspects that relate to cost of ownership and financial selling.

The Dutch CMT is fully aware of the importance of CCOO in the selling process and has decided to run a CCOO program during FY92. The sponsorship for this program and the appointment of a program manager are responsibilities of the Country Sales and Marketing Manager. A program manager has not been appointed at this point in time.

To ensure continuity in the FYs following FY92, the EAMP process should include guidelines for identifying CCOO-related opportunities.

The subsidiary DCC's report to select partners mainly on the functionality of their applications and the financial stability of the partner organization. Generally speaking, cost of ownership or the value of the proposed solution are not part of the decision making process in the DCC's.

1.4.2 Area

On the European Area level there has been carried out a support program for CCOO. This program has actually ceased to exist in february 1991 due to the repatriation of the program manager.

A spreadsheet model to minimize the calculating process in Cost of Ownership studies has been made available to the field.

Recently, efforts in the area of Investment Analysis have emerged.

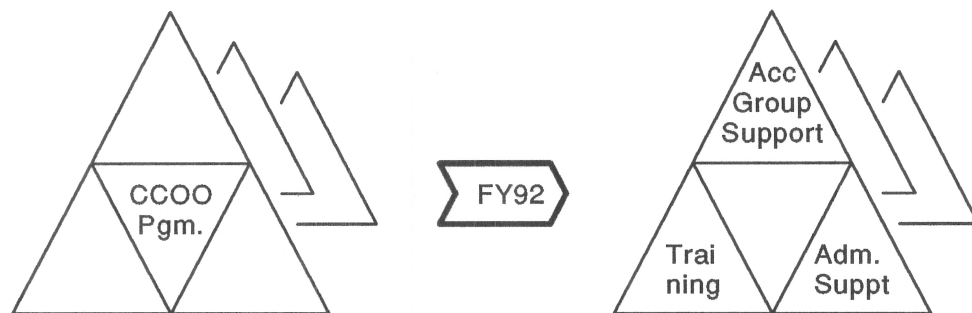
1.4.3 U.S.

Simple cost of ownership for standard IT-solutions has been made available through the Financial Analysis Support Tool (FAST) toolset. Using a link to the Automated Quotation System (AQS), FAST allows a simple Return-on-Investment or Payback Period statement to be included in quotations.

The benefits of such a system are obvious, but one should bear in mind that only the **cost** part of the analysis is included automatically. The selling force still has to come up with financial estimates for the **benefit** part.

Chapter 2

Objectives and Strategy



2.1 Objective

The objective for the program is

to establish and maintain a trained account selling force.

2.2 Critical success factors

There are several conditions that have to be fulfilled in order for the CCOO program to succeed:

- commitment from within the Digital organization, especially the selling force and account (group) management;
- awareness in our customer/prospect base with respect to the benefits of a CCOO approach;
- availability of resources during the time that little revenue is to be expected from these resources;
- professional public relations management;
- continuation of all CCOO *activities* after the CCOO *program* has terminated;
- availability of tools;

- visible results in terms of revenue for Digital, both directly from CCOO consultancy fees and indirectly from leveraged business;
- visible results for customers in terms of contribution to the bottom line;
- central coordination of distributed activities in the account teams/groups to optimize the effective use of resources.

2.3 Risks

The CCOO approach is new to the majority of the selling force. This implies that there is a risk of losing, instead of winning business when using this approach. When this occurs too often, Digital's good reputation may be eroded.

Any investment in tools and resources of course implies other risks. These are considered to be part of the normal entrepreneurial risks; they are taken for granted.

2.4 Program description

The CCOO Program as described in this section is designed to run during FY92. After that, the *program* terminates, and a regular *process* of CCOO activities is established in the organization as a result of the program.

2.4.1 Organization

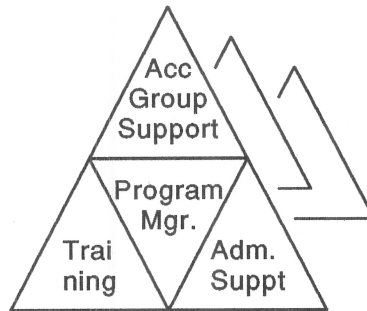
Account teams are the primary structures for doing business with our customers. All program activities should enable the account teams to effectively use CCOO-related strategies and to empower the teams with CCOO-related tools and techniques.

The CCOO program creates an organization with following components:

1. Program Sponsor
2. Program Manager
3. Account Group Support
4. Selling Training
5. Administrative Support

The interdependency of these components is illustrated in Figure 2-1

Figure 2-1: The CCOO organization



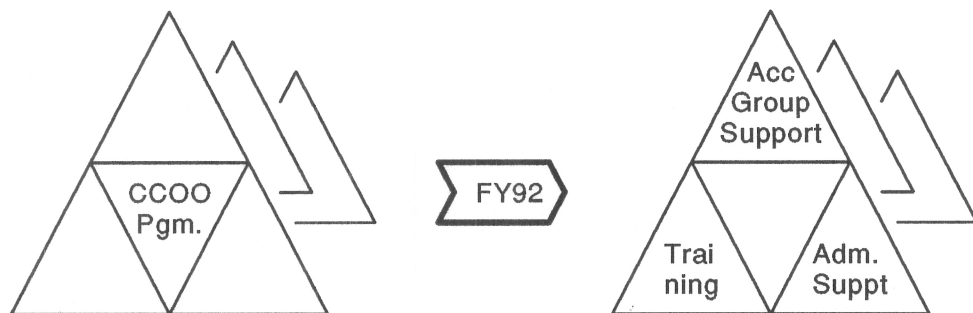
2.4.2 Functions and Responsibilities

The following responsibilities are to be assigned

1. the Program Management function
 - creates awareness of CCOO
 - oversees the implementation of the organizational structure is aware of, and coordinates all CCOO-related activities in the subsidiary.
 - strives to make his/her own function obsolete by institutionalizing CCOO in the account teams
2. the Account Group Support function
 - provides industry specific focus by adding DCC expertise
 - uses liaison officers for continuity
3. the Selling Training function
 - provides a training environment
 - a. using Training Development skills
 - define overall contents of training curriculum
 - define target audience
 - keep track of the process: from focus to ongoing
 - define training evaluation criteria
 - define refresher-trainings
 - b. using Training Delivery skills
 - ensure CCOO-training is a continuing effort
 - address new hires
4. the Administrative Support function
 - ensures continuity by acting as a repository for CCOO-related information
 - manages and provides tools, adjusted for the Dutch subsidiary/market
 - manages and provides data for these tools, adjusted for Dutch subsidiary/market
 - acts as a library/info desk ("CCOO-Hotline")

Chapter 3

Goals and Tactics



3.1 Goals

The goals of the CCOO-program, to be realized during FY92, are threefold:

- to have knowledgeable and experienced support available in each selected account group,
- to have the business development training portfolio enhanced with CCOO training and
- to have central administrative support in place.

3.1.1 Account group support

The major goal is to have in place for each selected account group by the end of FY92 one or two account support consultants experienced in Cost of Ownership analysis. These consultants should have performed several analyses each.

Because of the different business requirements of the customers in each account group, involvement of each group is required. At the same time it is important to have one Digital strategy/approach, resulting in a requirement for cooperation and central coordination.

3.1.2 Training

With respect to training, a distinction is made between the training curriculum to be developed for a broad audience, and the target audience for FY92.

3.1.2.1 Training development

Although CCOO analyses will be performed by experienced consultants, it is very important to provide a broad audience of professionals (e.g., account managers, consultants) with a basic understanding of CCOO. They must be aware of the benefits (both to Digital and our customers).

This training/seminar should provide them with the information needed to perform global discussions with customers and identify leads.

The training must be consistent with the current business development portfolio (BAT, EBMS).

3.1.2.2 Training delivery

To test the training and to form a base for starting with a financial selling approach in FY93, it is necessary to have an amount of training performed during FY92. The target audience is professionals from strategic account teams.

It is necessary to have at least three (pilot) training sessions performed (10-15 persons each).

The goal for the year following FY92 is to have **all** staff in the target audience trained, and to make available a refresher training.

3.1.3 Administrative support

CCOO analysis depends heavily on the availability of data from both internal and external sources (Reports, competitive information, personnel requirements by environment).

Due to the fact that all account groups will rely on basically the same data it is essential to have central administrative support. This administrative support should be in place by Q1 FY92 to gather existing information and to support the trained professionals participating in the CCOO-program.

3.2 Non-Goals

3.2.1 Consultancy revenue

Although it is foreseen that the consultants involved should perform some customer CCOO-analyses during FY92, it is anticipated that these analyses will be performed as pre-sales activities or with limited payment. It is not a goal to generate consultancy revenue in FY92. During FY92 the main purpose of the CCOO-analyses will be to gain experience and gather information.

3.3 Future directions

The program shall be finalized with a formal evaluation by the end of Q4 FY92. The resulting evaluation report will contain the facts and findings of FY92 related to this business plan. The evaluation process will be used to generate an operating plan for FY93.

3.4 Implementation process

The following table gives an overview of the activities to be performed:

Activity	Timeframe	Responsibility
Program manager assignment	Q3-4 FY91	CMT
Training development	Q1-2 FY92	EDU training development
Training delivery	Q3-4 FY92	EDU / EIS-consultant
Account group commitment	Q1 FY92	Program manager / Account group managers
Account group involvement	Q1-4 FY92	Program manager / Account group consultants
Preliminary CCOO analysis	Q2-4 FY92	Account group consultants
Administrative support	Q1-4 FY92	Marketing
Evaluation	Q4 FY92	Program manager / Account group consultants

3.5 Resources

3.5.1 Tasks, skills and effort

Task	Skill	Effort FY92
Program management	Financial analysis Program management	4 months ¹
Training development	Training development Bus. dev. tr. portfolio	4 months
Training delivery	CCOO knowledge Educational	20 days ²
Acc. gr. consultancy (3 persons) ³	Financial analysis Consultancy skills	7 months
Administrative support		12 months

¹Exclusive account group consultancy task

²Exclusive training participants

³Preferably, the program manager is one of the account group consultants

3.6 Tools

During the compilation of this report, a large number of scattered sources of CCOO-related information have been identified. Traditional sources, such as Notes conferences, Competitive update summaries all seem to address the issue in different ways. In the authors' opinions, this reflects the lack of proper program focus. It is exactly this focused approach that is recommended in this document.

The authors of this document will make the material gathered during this project available to the CCOO Program Manager upon request.